

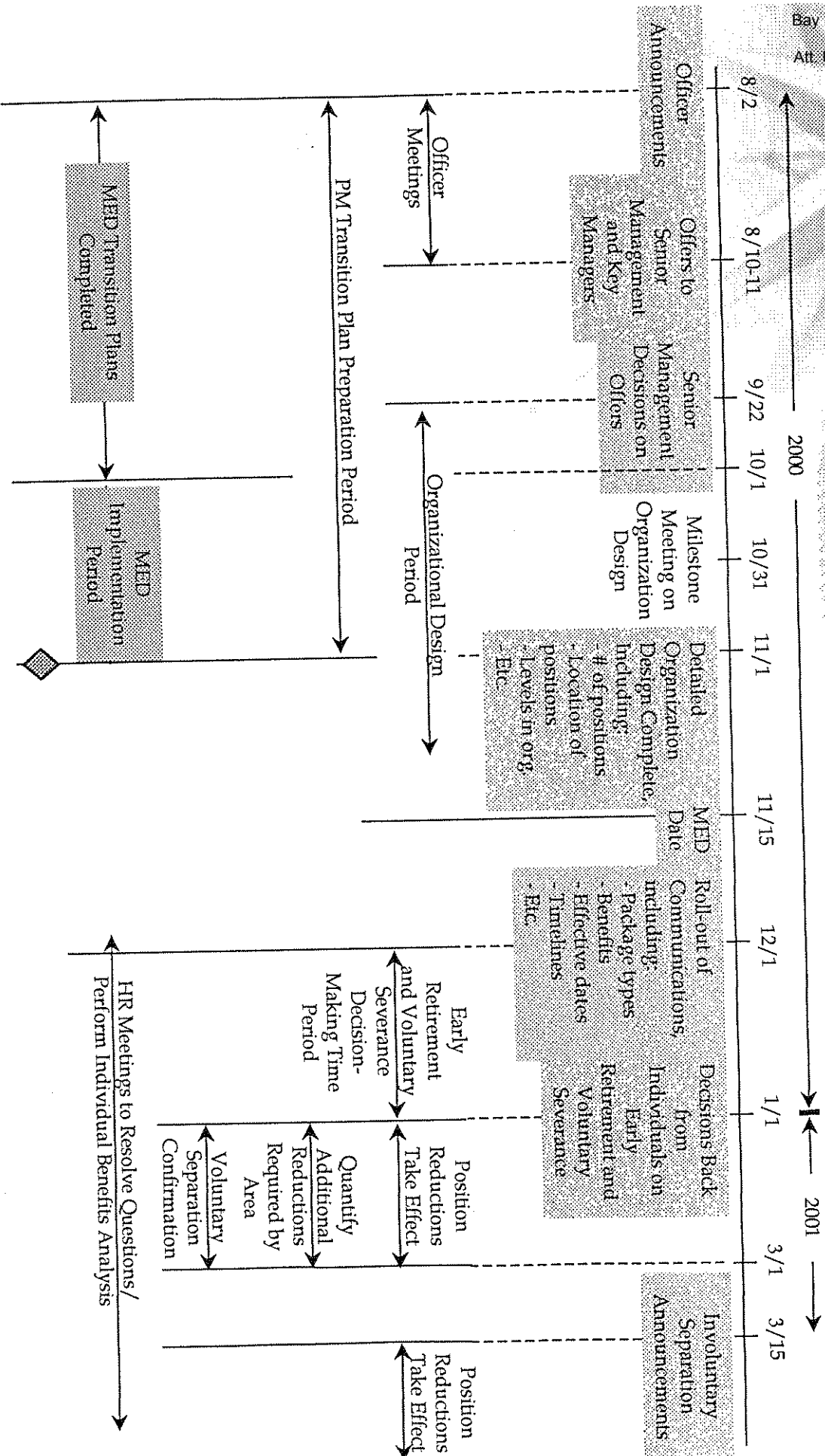
Project Overview

Illustrative Business Case Model — Key Inputs and Outputs

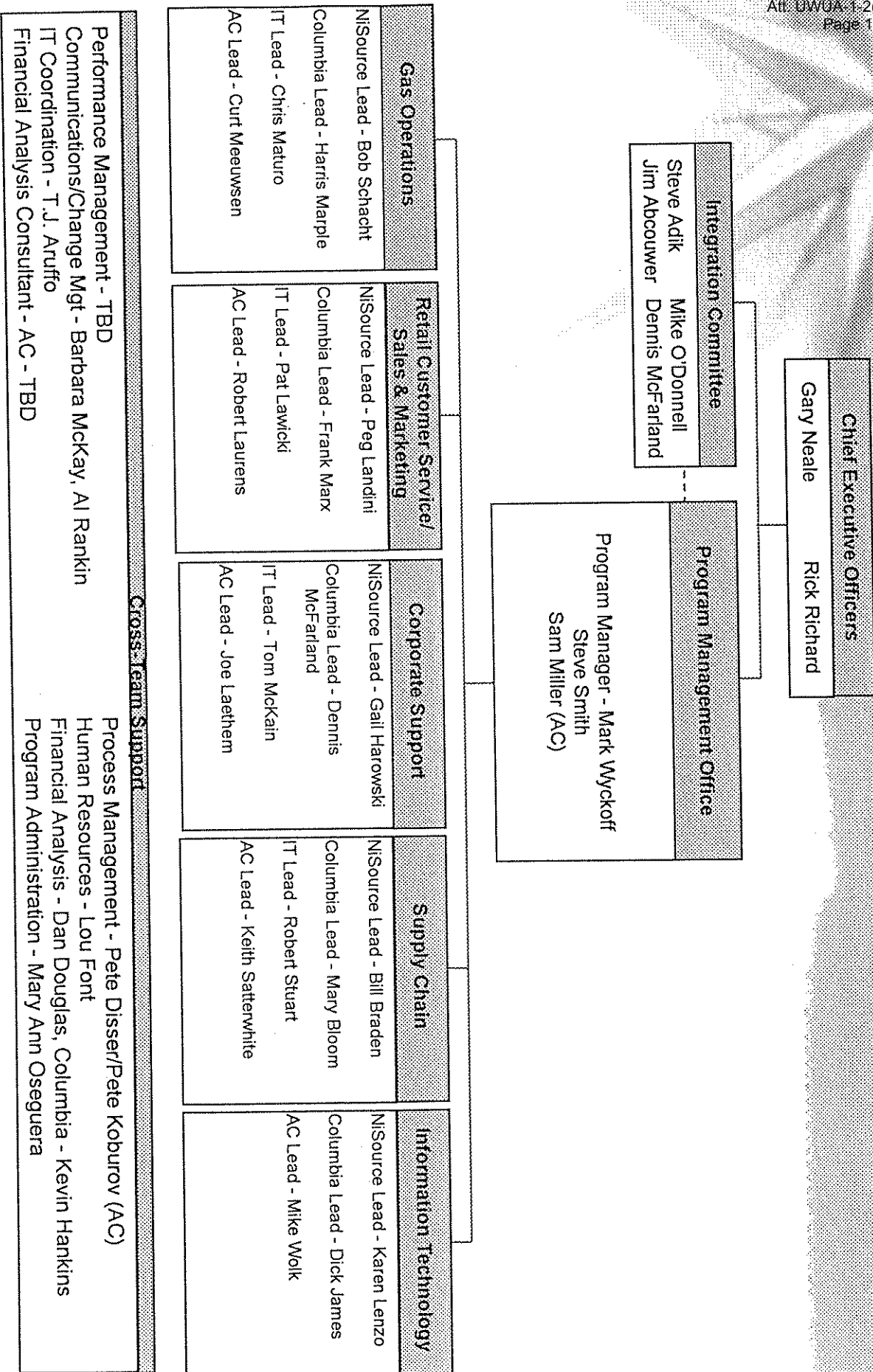
Non-Financial Analysis	Financial Analysis		
	Input Section	Income Statement	Cash Flow Statement
<p>Project Team:</p> <p>Project Proposal Name:</p> <p>Project Description</p> <ul style="list-style-type: none"> • • <p>Key goals/ objectives of project</p> <ul style="list-style-type: none"> • <p>Benefits (or problems avoided) when implemented</p> <ul style="list-style-type: none"> • <p>Key Assumptions</p> <ul style="list-style-type: none"> • • <p>Implementation Risks</p> <ul style="list-style-type: none"> • <p>High Level Implementation Milestones</p> <ul style="list-style-type: none"> • <p>Alternative approaches considered</p> <ul style="list-style-type: none"> • 	<p>Project Title:</p> <p>Version Description:</p> <p>Project Number:</p> <p>Projection Analysis Period (# of Yrs.):</p> <p><u>Capital Investments (Direct Costs Only)</u></p> <p>Direct Company Labor</p> <p>Direct Warehouse Materials</p> <p>All Other Direct Capital Costs</p> <p>Salvage Value of Asset at end of Project Life</p> <p>Refundable Customer Contributions/(Refunds)</p> <p>Non Depreciable Investment</p> <p><u>Revenues (Incremental)</u></p> <p>Incremental Revenues</p> <p>Off-system Sales</p> <p>Other Revenues #1</p> <p><u>Cost Savings/Benefits</u></p> <p>Company Labor</p> <p>Incremental Benefits #1</p> <p>Incremental Benefits #2</p> <p>Incremental Benefits #3</p> <p>Incremental Benefits #4</p> <p>Incremental Benefits #5</p> <p><u>Incremental Costs (Direct Costs Only)</u></p> <p>Company Labor (IS and Field Service)</p> <p>Incremental Costs #1</p> <p>Incremental Costs #2</p>	<p><u>Revenues</u></p> <p>Incremental Revenues</p> <p>Off-system Sales</p> <p>Other Revenues #1</p> <p>Total Revenues</p> <p><u>Cost Savings/Benefits</u></p> <p>Company Labor</p> <p>Labor Overheads</p> <p>Labor Payroll Taxes</p> <p>Total Labor</p> <p>Incremental Benefits #1</p> <p>Incremental Benefits #2</p> <p>Incremental Benefits #3</p> <p>Incremental Benefits #4</p> <p>Incremental Benefits #5</p> <p>Sub-Total Savings/ Benefits</p> <p><u>Incremental Costs</u></p> <p>Company Labor (IS and Field Service)</p> <p>Labor Overheads</p> <p>Labor Payroll Taxes</p> <p>Total Labor</p> <p>Book depreciation</p> <p>Property Taxes & Insurance</p> <p>Sub-Total Incremental Costs</p> <p>NET (COSTS)/ BENEFITS</p> <p>Operating Profit</p> <p>Book Income Taxes</p> <p><u>Net Income (Book Basis)</u></p>	<p>Net Income (Book Basis)</p> <p>ADD: Book Income Taxes</p> <p>Book depreciation</p> <p>LIES: Tax depreciation</p> <p>Pre-Tax Income</p> <p>Income Taxes</p> <p><u>Net Income (Tax Basis)</u></p> <p>ADD: Tax depreciation</p> <p><u>Cash Flow From Operation</u></p> <p><u>Capital Investments</u></p> <p>Direct Company Labor</p> <p>Direct Warehouse Materials</p> <p>All Other Direct Capital Costs</p> <p>Sub-Total Direct Capital</p> <p>Labor Overheads</p> <p>Warehouse Overheads</p> <p>A&G Overheads</p> <p>Sub-Total Capital Overheads</p> <p><u>Total Capital Investments</u></p> <p>Non Depreciable Investment</p> <p>Customer Contributions/(Refunds)</p> <p>Project Closure</p> <p>Salvage Value of Asset at end of Period</p> <p><u>Total Cash Flow</u></p> <p><u>Internal Rate of Return (IRR)</u></p> <p>Net Present Value @ XX.XX%</p>

Project Overview

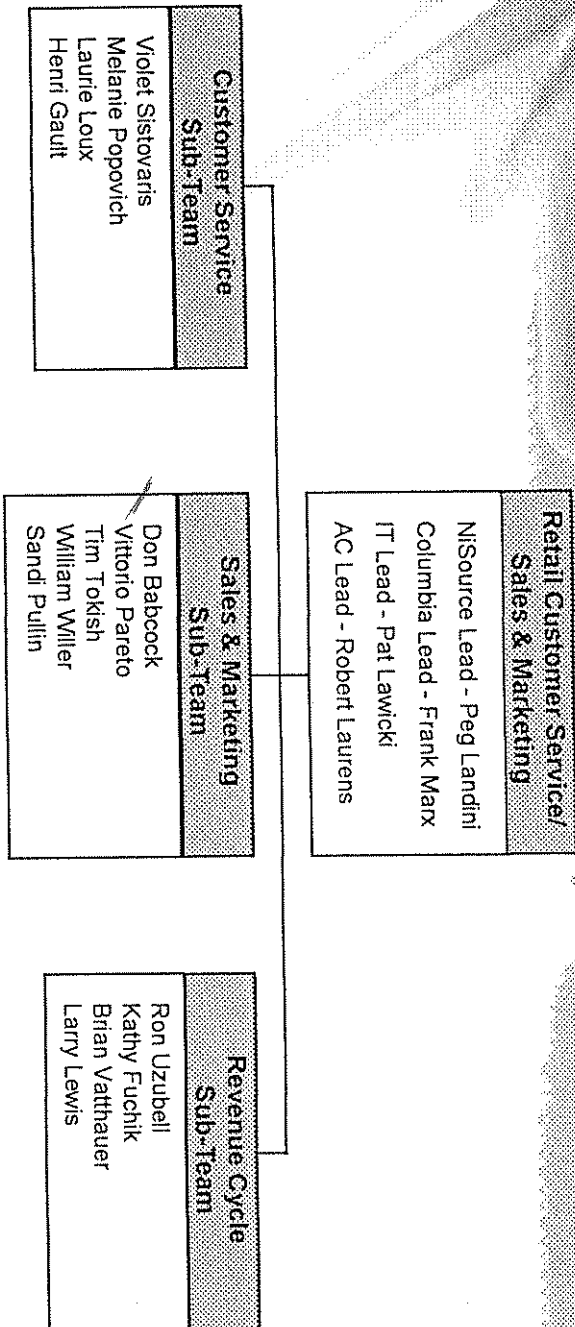
Illustrative



Project Compass Organization Chart



Retail Customer Service/Sales & Marketing Team - Organization & Scope



Key Areas of Analysis

- Call Center Operations
- Walk-In Offices
- Customer Relationship Management (CRM) Implementation
- Sales Organization
- Marketing Organization
- Economic Development
- Product & Service Offering
- Product Delivery
- Meter Reading
- Billing
- Bill Print/Distribution
- Remittance Processing
- Credit & Collections



Retail Customer Service/ Sales & Marketing Team - Interim Findings

Customer Service Sub-Team

Key Similarities:

- Two (2) CIS systems among 7 Call Centers
- Local Office strategy: minimize cost or increase revenue potential
- Vision for Customer Relationship Management

Key Differences:

- Call Center labor at NISource is unionized, whereas Columbia's is not
- Management/Support staff structure
- Universal vs. specialized agents/Hours of operation
- Consolidation capacity

Major Opportunities:

- Consolidation of Call Centers;
 - Columbia 5 to a maximum of 2
 - Bay State and NipSCO to 1
 - Virtual Center
- Elimination of Local Offices
- CRM (Siebel) as common front end for multiple CIS/legacy systems
- Increase IVR utilization

Critical Issues:

- Union Accretion
- Service Levels during transition
- Extreme regulatory rules and policies (CPA)

Retail Customer Service/ Sales & Marketing Sales & Marketing Sub-Team Team - Interim Findings

Key Similarities:

- Marketing
 - All companies promote Choice and products that use gas
 - All companies have varying levels of Key Account focus
- Sales
 - All companies see value in Economic Development focused on Industry Attraction

Key Differences:

- Marketing
 - At NIPSCO substantial P & S focus with NPD support from Prod. Line Mgmt. & EUSA, high gas saturation levels
 - At Bay State & Columbia primary focus is to "fill the pipe", more opportunity but more competition, even gas on gas
 - At Columbia Bill Insert sales to 3rd parties/Manufacturer/Distributor offerings
- Sales
 - At NIPSCO commodity sales are complemented by P & S sales supported by Utility Construction Dept. and EUSA Sales Support (inside) handles customer service activities and Electric Outage Recovery & Coordination
 - At Bay State and Columbia line extensions are evaluated on NPV
 - More reliance on trade and equipment manufacturer allies to increase end use gas sales
 - At Columbia significant Residential/Developer emphasis
- Econ. Dev. - Substantially greater emphasis at NIPSCO

Major Opportunities:

- Develop a cross company Sales & Marketing Business Plan with defined brand strategy and leverage brand awareness
- Reorganize Sales & Marketing to support the Business Plan
- Consolidate Technical Sales Support into one group
- Analyze Advertising & Market Research Effectiveness
- Sell new Products and Services in Columbia and CSP products at NiSource, Distributed Gen especially in high cost electric areas
- Examine Bill Insert Efficiencies and Corporate Strategy
- Develop E-Commerce platform - e*view, ContractorConnect, P & S sales, ED Website, process enhancement

Critical Issues:

- Regulatory/Affiliate Guidelines at Columbia
- Expansion of delivery channels
- Corporate Branding Strategy
- EUSA Support

Company
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New Direction

Retail Customer Service/ Sales & Marketing Team - Interim Findings

Revenue Cycle Sub-Team

Key Similarities:

- Common vendors such as (First Data Corp, Equifax, NCO, CheckFree and AMR devices).
- Various stages of AMR interest, analysis and deployment
- All have special gas billing/transportation billing sub-systems and routines

Key Differences:

- Customer Choice unbundling programs
- IT support: Shared service at Columbia and outsourced to IBM at Nipsco and Bay State
- Level of internal skiptracing collection efforts

Major Opportunities:

- Combined purchasing strength through common vendors
- Single-source all bill print and bill distribution
- Single-source clerical billing processing: one location for CIS (Nipsco and Bay State) and one location for DIS (all 5 Columbia LDCs)

- AMR and outsourcing strategies
- Collections strategies

Critical Issues:

- Nipsco clerical bargaining unit security clause
- Overall I.T. system decisions

Gas Operations Team - Organization & Scope

Retail Customer Service/ Sales & Marketing
<p>NISource Lead - Bob Schacht Columbia Lead - Harris Marple IT Lead - Chris Maturro AC Lead - Curt Meeuwssen</p>

Transmission & Storage, Distribution Gas Supply/Gas Control Sub-Team
<p>Doug Walker John Ryder Mike Ripley Steven Auld John Schneider Alan Burns</p>

Distribution Sub-Team
<p>Don Tokoly Dennis Muntean Grant York Paul Lashoto Kevin Swiger Tim Young (AC)</p>

Key Areas of Analysis

- Planning/Engineering/Design
- Scheduling/Construction
- Asset Management/Property Records
- Monitoring/Control
- Trouble/Emergency/Restoration
- Maintenance
- Facilities Planning
- Transmission Commercial Services
- Distribution Gas Supply, Storage and Control

- Planning/Engineering/Design
- Construction
- Scheduling and Dispatch
- Closeout/Property Records
- Monitoring and Control
- Trouble/Emergency/Restoration
- Maintenance/Preventive Maintenance
- Meter Fabrication/Testing

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Gas Operations Transmission & Storage Team - Interim Findings

Transmission & Storage Sub-Team

Key Similarities:

- Common business functions - natural gas transmission
- Similar organization structures
- Very similar tariffs
- Same supporting computer systems
- Common regulatory governance body - FERC
- Common end user customer base
- Some common officers - CEO, CIO, Public Affairs, Environmental, Human Resources, Operations, Finance

Key Differences:

- GULF operations in Gulf of Mexico
- Different officers for Customer/Commercial Services and Legal
- TCO operates storage facilities
- Gulf operating under team concepts at hourly level for 3 + years, TCO just beginning
- TCO 300+ hourly union employees (approx. 45%), Gulf Operations no union

Major Opportunities:

- Continue operational excellence initiatives to support incremental benefit from VLRP participation in excess of estimates
- Consolidation of GULF/TCO Customer/Commercial functions and appropriate operating functions (gas control, commercial services, facility planning, operations in key areas)
- Divest/dispose of non-core/under performing assets
- Share maintenance between Transmission and Distribution organization where appropriate

Critical Issues:

- Shared services - what, where?
- Locations - how many, where?
- Retention of key personnel
- Cost of consolidation
- Union issues

Note: For the purpose of this study it has been assumed that Crossroads will be integrated with the Columbia Transmission companies - this similarities/differences/opportunities identified refer to Columbia Transmission and Columbia GULF

Crossroads
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Gas Operations Distribution Gas Supply/Gas Control Team - Interim Findings

Distribution Gas Supply/Gas Control Sub-Team

Key Similarities:

- Single corporate group manages and optimizes gas supply portfolio for affiliated LDC's

Key Differences:

- Columbia LDC gas control is centralized - NiSource decentralized
- No union employees within Columbia gas control
- NiSource corporate gas supply supports non-regulated retail sales

Major Opportunities:

- Form one gas supply and gas control group for new NiSource LDC's
- Centralize and standardize SCADA and data management systems and support
- Centralize traditional supply and PBR management and support
- Leverage NiSource PRM experience into portfolio and PBR management

Critical Issues:

- Determine post merger strategy and structure regarding management of LDC assets
- Cost of consolidation



Gas Operations Distribution Team - Interim Findings

Distribution Sub-Team

Key Similarities:

- Similar work functions performed in each LDC
- All using MDT's as a platform for service work
- Organizational structure similar within operating units - similar spans of control
- LDC's in NiSource and Columbia companies operate independently
- Operate in rural and urban environment

Key Differences:

- Significant differences in the use of contractors
- Labor environments
- combination utility vs. gas only utilities
- Regulatory requirements and oversight (e.g., meter changes, third party damages)
- Different levels of activity in revenue producing products and services

Major Opportunities:

- LDC consolidations (Nipsco/NIFL/Kokomo, Pennsylvania/Maryland/Virginia, Ohio/Kentucky)
- Consolidate service dispatch to cover LDC consolidations
- Consolidate engineering structure and practices (standards and codes, capital allocation, technical support)
- Shared maintenance activities where T&D facilities overlap (points of delivery, common asset areas)
- Consolidate meter shop functions - compare outsource vs. in-house (testing and repair)
- Further develop reliability centered maintenance program and other operational excellence programs
- Evaluate continued need for storage and peaking facilities - revenue and operational (LNG, Propane/Air, Holders, Storage Fields)
- Quantify incremental benefit from VIRP participation in excess of estimates
- Identify reduction opportunities in land, buildings and fleet (e.g., share buildings between distribution and transmission)

Critical Issues:

- Labor (contractual restriction, union organizing efforts)
- Regulatory and regulatory (tariffs, Ohio Collaborative, keep the money)
- IT systems
- Cost of consolidation

Scenopsis
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Corporate Support Team - Organization & Scope

Corporate Support

Gail Harowski Dennis McFarland
Joe Laethem Tom McKain

Finance/Accounting Mgmt

Jeff Grossman
Art Paquin

Gary Barnard Kevin Kirkham Marvin Taylor
Chip Hollands Paul Newman John Urda
Randy Hulén Joyce Shroka Steve Warnick
Bob Strempla

Human Resource Mgmt

Roger Adank
Tom Zigray

Scott Eblin Rob Shultko
Al Marks Karl Teeters
Barbara Opoka

Other Corporate Support

Patty Dondanville
Liz Rosa
Kathy Shroyer

- Financial Planning
- Budget Management
- M&A
- Financial System Management
- Tax
- General Accounting
- Property Accounting
- Consolidations
- Reporting
 - Internal
 - External
- Treasury
 - Banking Relationships
 - Cash Management
- Payroll
- A/P

- Benefit Design
- Benefits Administration
- Organizational Development
- Recruiting
- Compensation Design
- Compensation Administration
- Personnel Management
- EEO Reporting
- Labor Relations
- HR Systems Management
- EAP
- Training
- Safety
- Leave Approval Processes

- Environmental
- Legal
- Communications
- Insurance
- Internal Audit
- Regulatory Affairs
- Investor Relations
- Facilities/Real Estate
- Security Services
- Risk Management
- Flight Operations

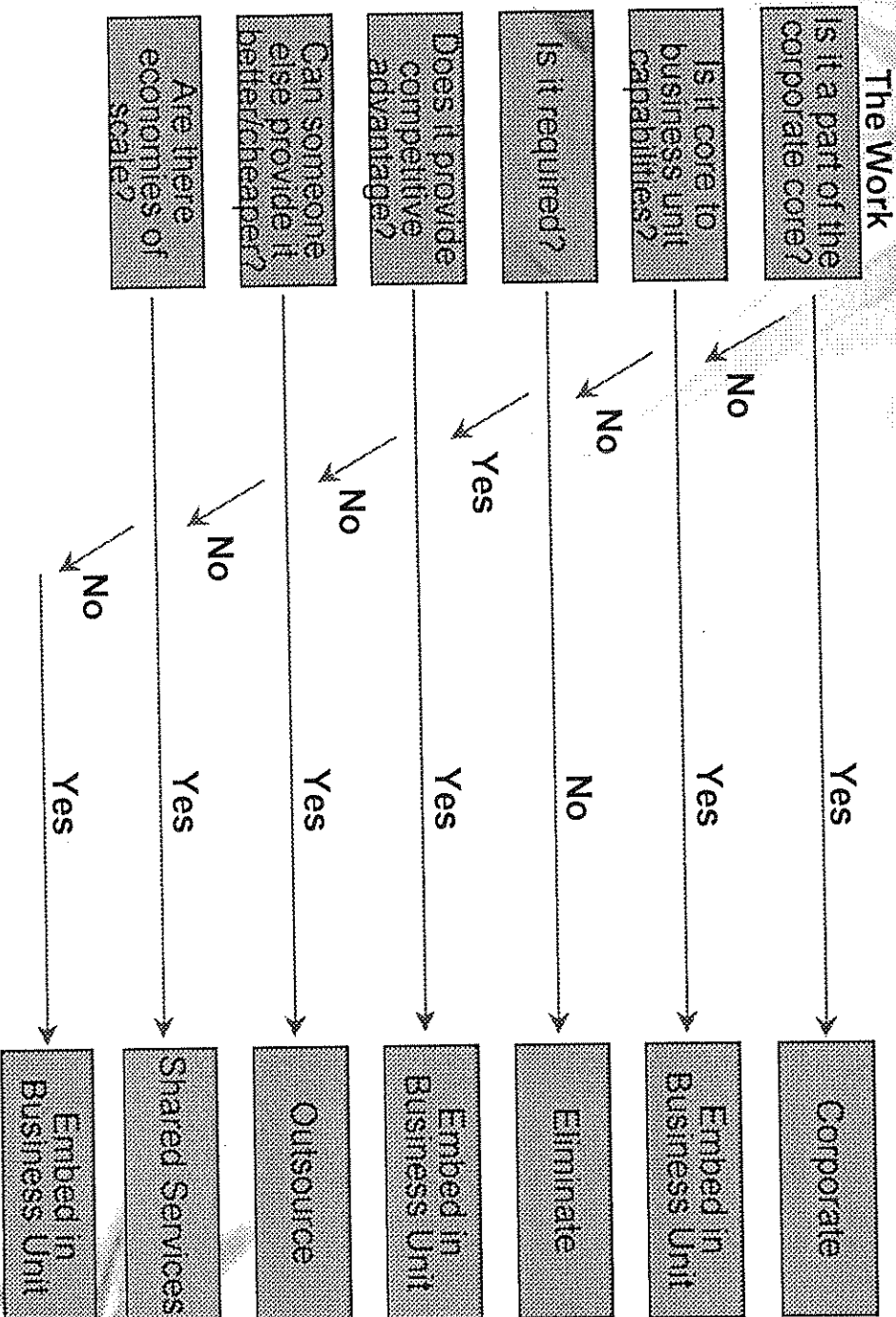
Corporate
Center

Shared
Services

Business
Units

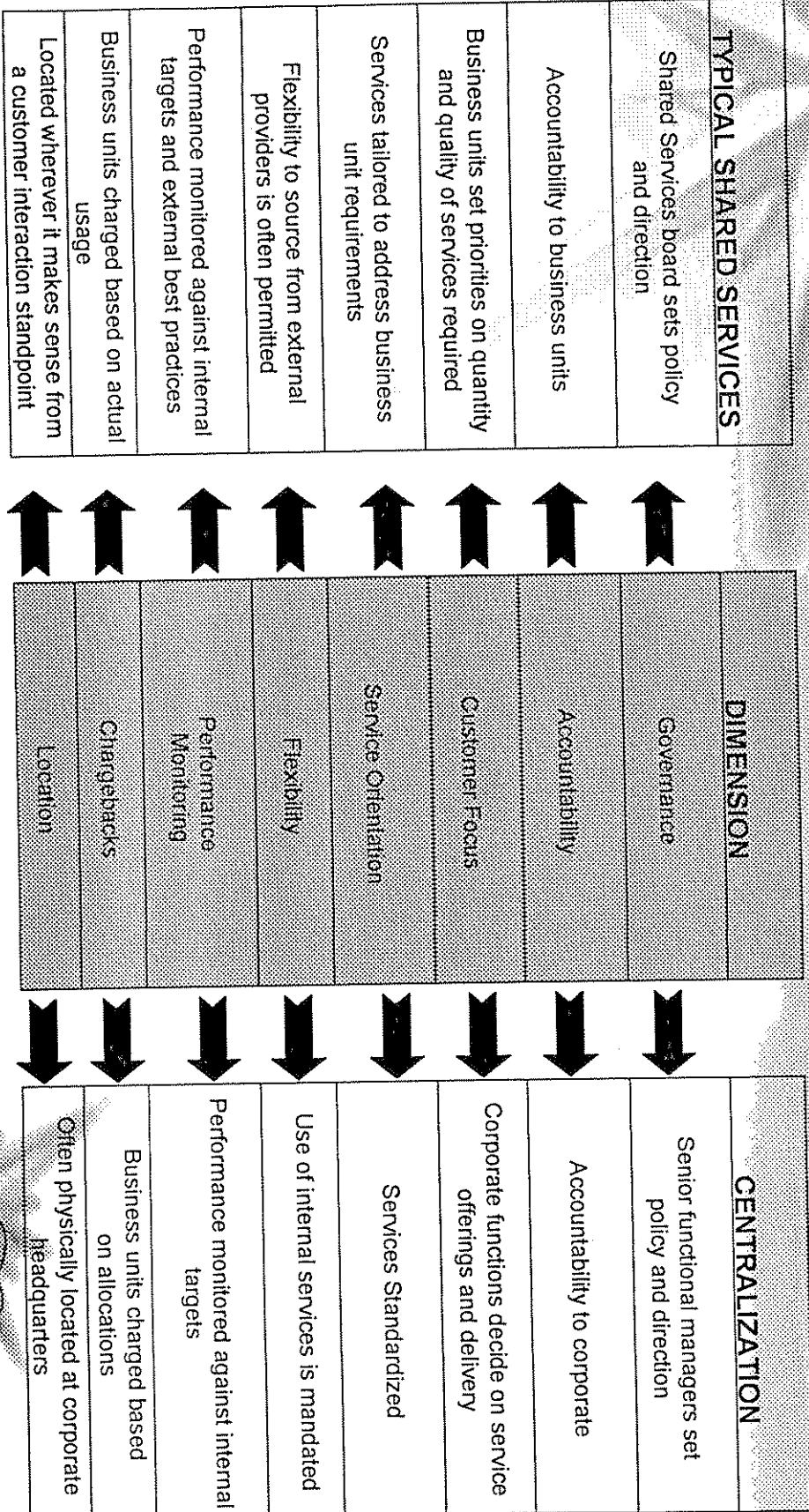
Compass
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The appropriate support services organizational model may be determined using a simple decision tree.



Confirms
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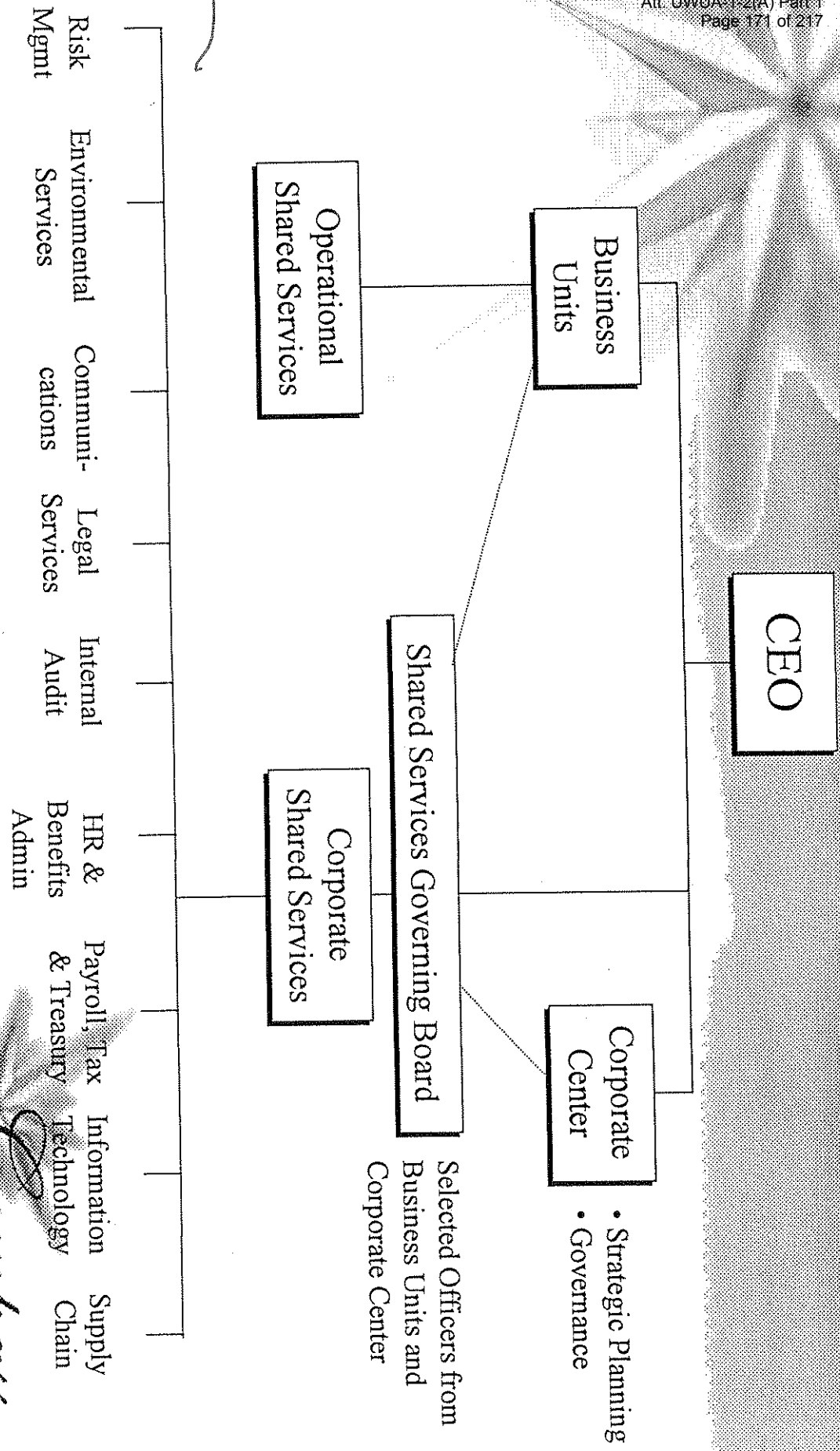
Shared Services Versus Centralized Support



Compass
Possibility • Reach • Reality • Choice
New Direction

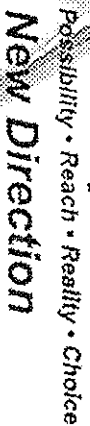
Source: Booz-Allen & Hamilton

Shared Services Strawman



Facilities Mgt
Realty
ES&M

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New Direction



Corporate Support Team - Interim Findings

Finance & Accounting Sub-Team

Key Similarities:

- Both Columbia and NiSource have implemented some "Shared Service" components.
- Financial Planning and Budgeting is decentralized to the operating companies at both NiSource and Columbia
- Both companies use the same Tax software and Consolidation software.

Key Differences:

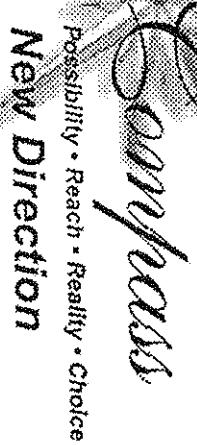
- NiSource does more accounting centrally while Columbia is decentralized except for the LDCs.
- NiSource maintains the original budget throughout the year, while Columbia updates the budget throughout the year.
- Columbia uses Columbia Value Added (CVA), a derivative of EVA, for capital allocation and incentive pay.
- Columbia has 2 levels of Finance & Accounting support (Service Corp & Segment Shared Services) and NiSource has 1 level.

Major Opportunities:

- Consolidate accounting and finance transactional work to gain economies of scale.
- Consolidate other Accounting & Finance support functions such as Tax, Financial Planning, Treasury, Budgeting, etc.
- Likely recommend one system solution for the large/regulated subs and another system solution for the smaller/non-regulated subs.

Critical Issues:

- System and process consolidation work effort (and associated savings) is likely to be significant, but will take substantial time and resources.
- While we expect staffing reductions in many areas, some functions may need staffing increases because of VIRPs and other losses.
- Union accretion and replacement issues need to be addressed.



Corporate Support Team - Interim Findings

Human Resources Sub-Team

Key Similarities:

- Aggregate value of benefits is similar (valuation is underway).
- Business Units have their own HR organizations.
- Some movement towards Shared Services has occurred in both organizations.

Key Differences:

- Percentage of unionized personnel (70% at NIPSCO, 60% at Bay State, 20% at CEG).
- HRIS systems are different across NIPSCO, Bay State, and CEG.
- CEG tends to outsource services, while NiSource tends to do work internally.
- Individual benefit plans are different (NiSource has 7 medical plans, CEG has 2).
- CEG has a fairly cooperative union relationship, while NiSource's (NIPSCO) relationship is more strained.

Major Opportunities:

- Change NiSource benefit plans to CEG where possible (common plans, admin).
- Standardize policies and processes to drive savings and outsourcing opportunities (one common look and feel).
- Employee reductions through the implementation of Shared Services and eliminating activities.

Critical Issues:

- New NiSource vision and values need to be defined in order to design the new organization.
- System and process consolidation work effort (and associated savings) is likely to be significant, but will take substantial time and resources.

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New Direction

Corporate Support Team - Interim Findings

Other Corporate Support Sub-Team

Key Similarities:

- Both corporations have had recent experience with implementing Shared Services.
- Both NiSource and Columbia believe benefits can be maximized by minimizing the Corporate Center.

Key Differences:

- Columbia's shared service center primarily focused on serving the LDCs, while NiSource intended to serve all subs.

Major Opportunities:

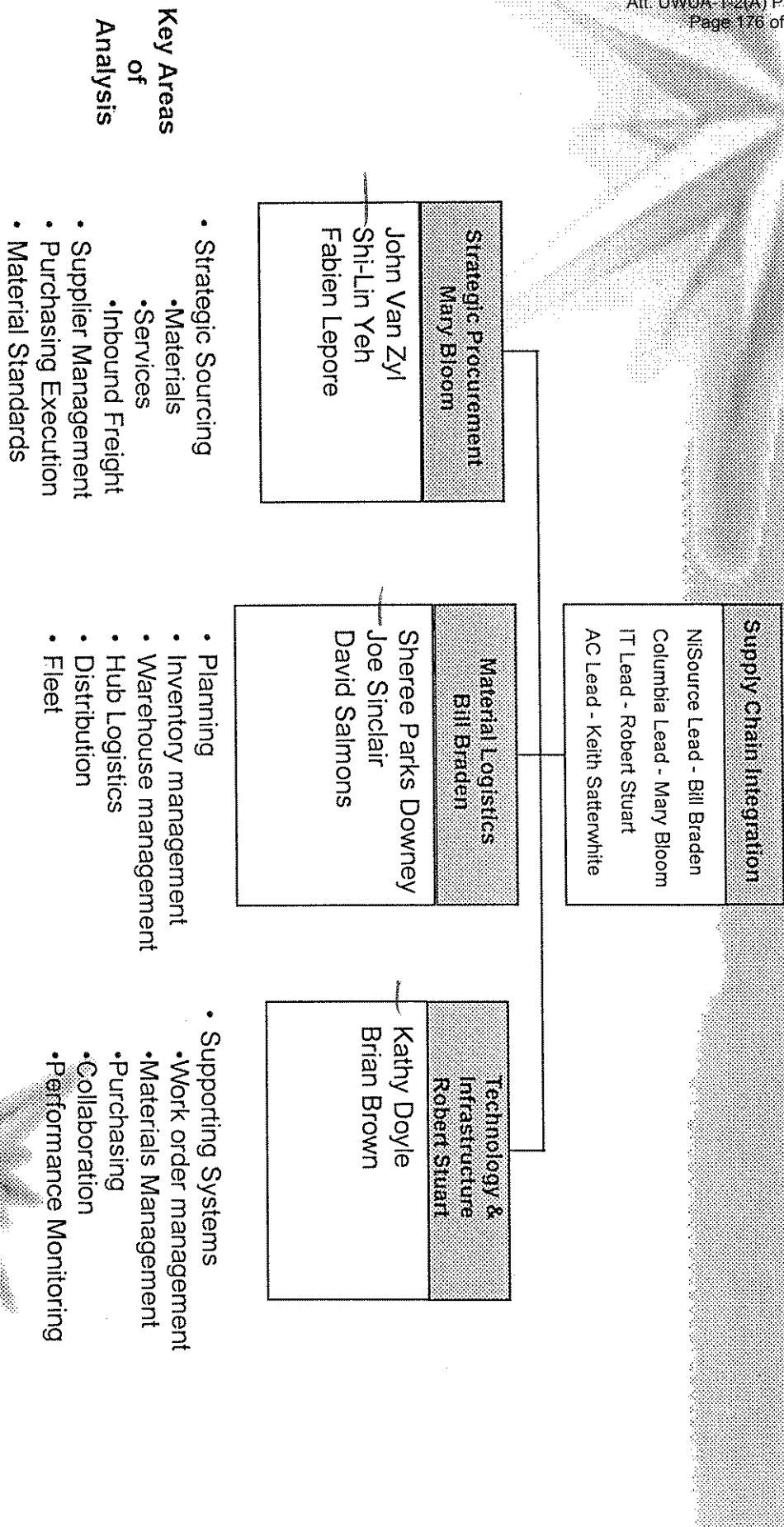
- Consolidation of internal organizations to eliminate duplication and costs.
- Leverage contracted services providers to reduce costs. Consolidate usage of contracted services to a few selected vendors in areas such as:
 - ➔ Insurance
 - ➔ Environmental Services
 - ➔ Legal
 - ➔ Facilities Maintenance
 - ➔ Real Estate Brokerage
 - ➔ Design & Production of Promotional Materials

Critical Issues:

- The greatest benefit will be derived if all subsidiaries utilize the Shared Services. Maintaining shadow organizations in the business units will reduce the benefits.
- Direction is needed on the amount of risk the corporation is willing to take in order to cut costs.

Corporation
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Supply Chain Team - Organization & Scope



Supply Chain Team - Interim Findings

Strategic Procurement Sub-Team

Key Similarities:

- Both companies have initiated leveraged buying initiatives
- Both companies lack enterprise-wide procurement / spend information systems
- Both companies lack enterprise-wide asset tracking

Key Differences:

- NiSource's purchasing execution is centralized. Columbia's purchasing execution is decentralized
- Columbia utilizes more "Third Party" for purchasing. NiSource purchases more direct.
- NiSource utilizes standardized contracts and contracting processes across the enterprise

Major Opportunities:

- Leverage the combined Capital and O&M spend (~ \$1 billion in total spend)
- Pursue aggressive standardization of materials and services
- Design organization and process improvements (purchase to pay cycle)

Critical Issues:

- Gaining eBusiness knowledge
- Existing contracts may restrict leverage of spend
- Data availability / commonality of spend
- Company portfolio decisions
- Cultural / behavioral changes required to implement different solutions

Supply Chain Team - Interim Findings

Material Logistics Sub-Team

Key Similarities:

- Basic material and equipment needs for Gas Operations
- Both organizations lack full integration of work management with materials management

Key Differences:

- Materials Management
 - Columbia utilizes "Third Party Logistics" providers
 - Just in time delivery / aggressive inventory burn down
 - Reduced warehouse operations (NiSource maintains extensive warehouse network)
 - NiSource has resident material & purchasing systems
 - Companies manage different commodities (Gas T&D vs. Electric T&D vs. Electric Production vs. E&P Gas)
- Fleet
 - NiSource has internal fleet maintenance and buys majority of fleet (in-house fleet system). Columbia has out-sourced maintenance and leases the majority of its fleet.

Major Opportunities:

- Materials Management
 - Evaluate best operating model; outsource, in-source model, or hybrid
 - Reduce inventories
 - Enable operations efficiencies
- Fleet
 - Standardize and rationalize fleet equipment / evaluate best management approach

Critical Issues:

- Integrated systems to support the supply chain
- Two radically different operating models
- Union Agreement constraints

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Information Technology Team Organization Chart

IT Integration Team	
T.J. Aruffo - Lead	
Karen Lenzo	
Dorothy Hawkins	
Pat Lawicki	
Dick James	
Phil Magley	
Robert Stuart	

IT Core Team		
Karen Lenzo		
Dick James		
Chris Maturro		
Patti Davis		
Tom McKain		
Mike Volk		

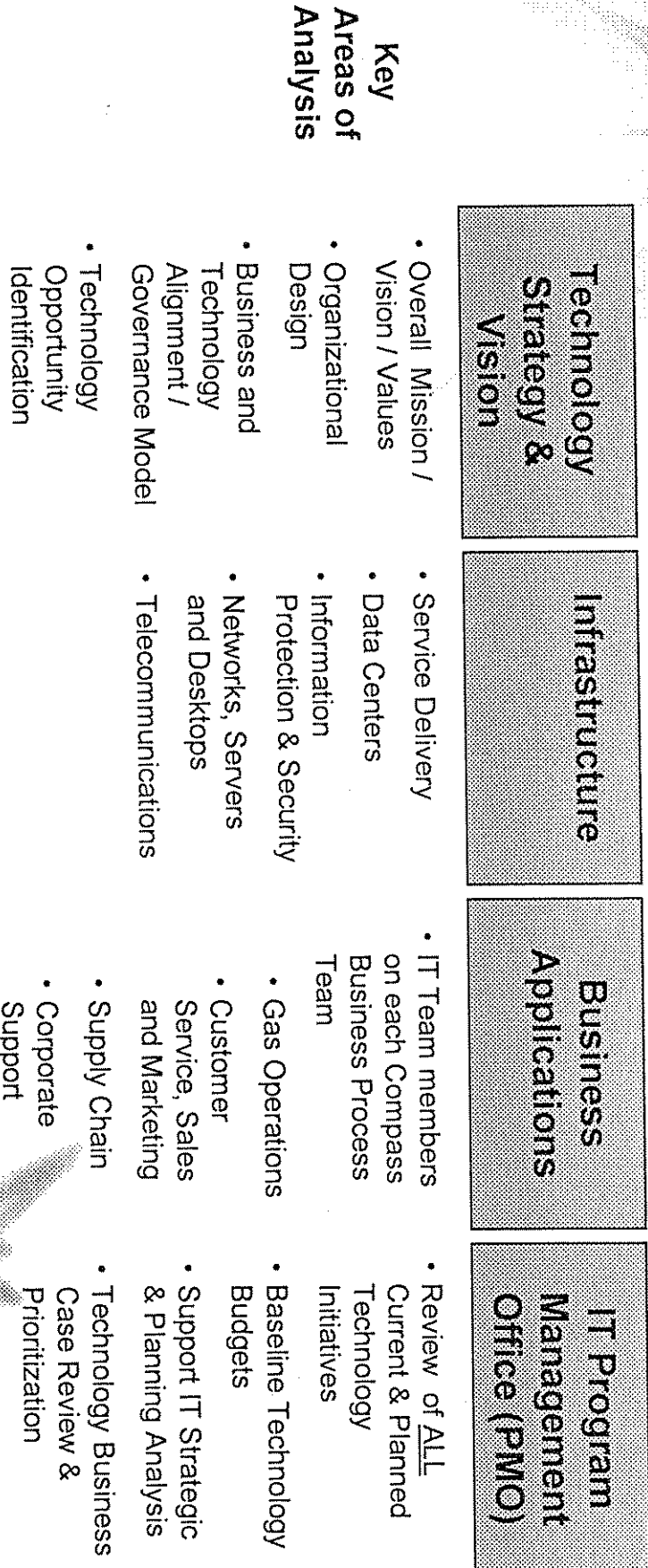
IT Strategy/Process Design	
T.J. Aruffo	
Chris Maturro	
Cheryl Deitcher	
Olga Polemitou	
Other Team Members as Required	

IT Program Management Office	
Mike Volk	
Cory Byzewski	
Steve Canfield	
Brian Kage	
Janet Kuhn	
Jim Lapasso	

Business Applications			
Gas Operations	Customer Service	Corporate Support	Supply Chain
Chris Maturro	Pat Lawicki	Tom McKain	Robert Stuart
Jeff Schneider	Sandy Pullin	Joyce Shrocka	Cathy Doyle
John Pulz	Henri Gault	Marvin Taylor	Brian Brown
Alan Burns	Roberta Mattox	John Urdia	
Henri Gault	Larry Lewis	Rob Shutko	
		Karl Teeters	

IT Infrastructure					
Patti Davis					
Service Delivery	Data Centers	Security	Net, Servers, Desktops	Telecom	
Jeff Peiz	Julie McElmurry	Mike Daumer	Mike Kovach	Al Severance	
Kyle Schafer	Mike Mulloy	Bill Shafley	Gordon Kinney	Doug Dupuy	
Jim Thompson	Jeff Peiz		Karen Lachow	Jim Swiggum	
	Jim Thompson		Kyle Schafer	Rick Gilmore	

IT - Key Areas of Analysis



Key Areas of Analysis

IT Team - Initial Findings

Key Similarities:

- Mainframe computing platforms (data center)
- Distributed computing platforms (desktops, networks, servers)
- Organizational strategy and process design

Key Differences:

- Sourcing strategies
- Business applications (i.e. package vs. in-house developed), and Business application footprint
- Ownership and allocation of technology investments and expenditures

IT Team - Initial Findings

Major Opportunities:

- Telecommunications Contracts
- Data Center Consolidation
- Centralization of Network Operations and Monitoring
- Hardware and Software Procurement, Licensing, and Standardization
- IT Delivery Efficiencies
- Optimized IT Organization

Critical Issues:

- Technology Implementation Spike and Scarcity of Critical Business and IT Skills
- Prioritization of Current and Compass Change Initiatives
- Lack of Forum to Balance Existing Operational Needs versus Compass Change Initiatives
- Long-term Contractual Obligations
- Facilities Decisions and Associated Technology Infrastructure and IT personnel support costs

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Gas Operations - Kickoff Breakout Session

May 18, 2000

CONFIDENTIAL - DO NOT DUPLICATE

Agenda

1:00pm - 2:30/3:00

- Welcome
- Overview of Day
- Team structure, roles/responsibilities
- Work approach and deliverables
- Kick-off First Work Activities
- Close and Next Steps

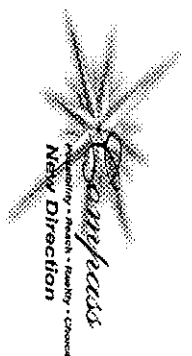
B.S.P.
B. Schacht/H. Marple

CURT
C. Meeuwsen

T.Y.
T. Young

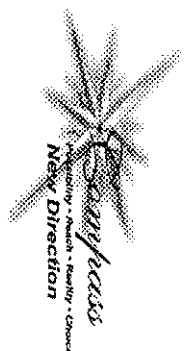
C. Meeuwsen

C. Meeuwsen



*91.8
25.5
66.3*

Expected Outcomes



Expected Objectives and Outcomes for today include

- Introduce ourselves and get to know one another
- Review and confirm our team charter and how we will operate (guiding principles and other assumptions)
- Understand our scope, team structure and roles/responsibilities
- Review our work approach and deliverables
- Identify early issues, sacred cows, etc. that we will need to know about and possibly elevate for clarity
- Review and assign first work activities - Current projects, list of opportunity areas
- Finalize administrative matters

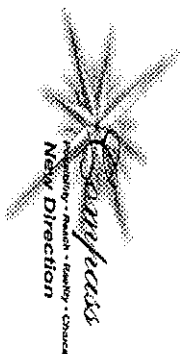
Team Charter

Our team charter:

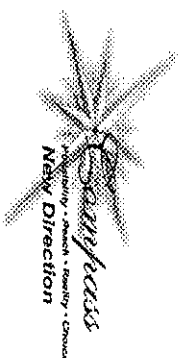
"Integrate the Gas Operations of Columbia and NiSource and build a framework for the new organization - an agile company ready to compete and succeed in the changing energy marketplace"

Objectives

- Aggressively reduce costs and deliver value to the bottom line
- Position and build the organization of the future
- Support the initial steps in a process of cultural change



Guiding Principles



Our team will follow a set of guiding principles that will be the foundation of our work efforts

- Focus effort on 1) "find the money", 2) "merge companies", 3) "create the NiSource of the future" *Go for synergy savings*
- We will consider all aspects of the gas business - Transmission, Gas Supply, Gas Storage and Distribution
- We will not specifically focus on on the Electric, Water or other alliances in this effort
- We will regard the above areas in scope when inclusion is judged critical to success of project or necessary in order to realize full value of opportunity
- We will assess the overall corporate strategy as we define opportunities and will raise issues/questions to our executive team as needed
- Outsourcing will be considered where economically justified
- We have an opportunity to completely reform the organization, practices and culture -

"Think BIG! There are no sacred cows, You are empowered to make decisions, Be aggressive, Focus on large impact items"

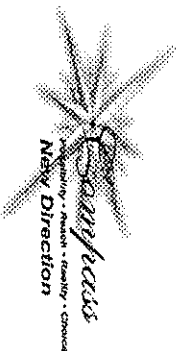
Guiding Principles



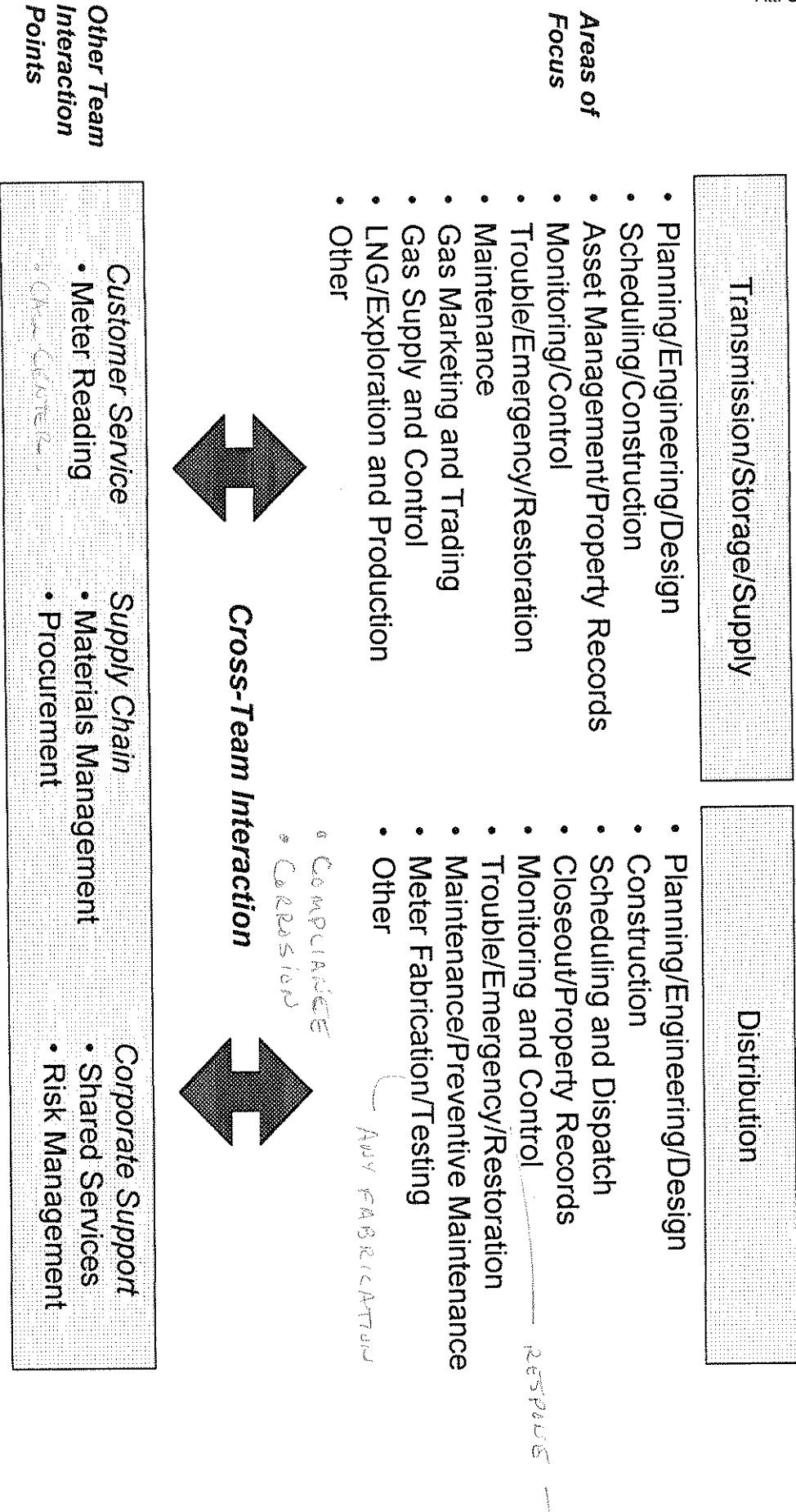
We want to be aggressive in our thinking and consider new ways that we can be “operationally excellent” and optimize cost, quality and speed

- Bringing together our distribution companies into a new structure:
 - ✓ Should we centralize our operations?
 - ✓ Can we gain efficiencies through shared services?
- Organizing and working around new ways to manage our Assets
 - ✓ Process organization around assets vs. functional boundaries
 - ✓ Using reliability-centered maintenance
- Looking for opportunities to share resources across geographies/territories
 - ✓ Automating supply and demand?
 - ✓ Examine new opportunities to manage and deploy people (centralized scheduling functions, or keep decentralized)?
- Examine creating a central gas monitoring/controls function
- Consolidate/standardize systems and practices across organization
- Identify new opportunities to take advantage of e-commerce

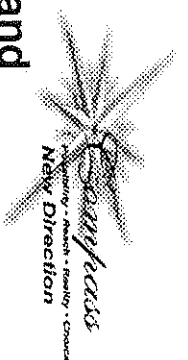
Scope of Work



The Gas Operations team will have the following business focus



Team Structure/Membership



Each of us will focus on a component/focal area to better focus and meet our six week goal

Team Leads

<p>niSource - Bob Schacht</p> <p>Andersen Consulting - Curt Meeuwsen</p>	<p>Columbia Energy - Harris Marple</p> <p>IT - Chris Maturo</p>
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Core Team

<p>Transmission/Storage/Supply</p> <p>niSource - Dan Gavito</p> <p>Columbia Energy - Gary Forman</p>	<p>Distribution</p> <p>niSource - Tim Dehring</p> <p>Columbia Energy - Larry Smore</p>
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- Columbia Gas*
- Doug Walker *NI*
 - John Ryder *CE*
 - Brian Vathauer
 - CNR (TBD)
 - Gas Supply (TBD)
 - Jeff Schneider (IT)
 - John Pultz (IT)
 - Mike Ripley *CE*
 - Don Tokoly *NI*
 - Dennis Muntean
 - Grant York *CE* - *part time*
 - Paul LaShoto *CE*
 - John Ripley *CE*
 - Kevin Swiger *CE* - *OH*
 - Henri Gault (IT - part time)
 - Alan Burns (IT)
 - John Pultz - *CE*

Cross Team

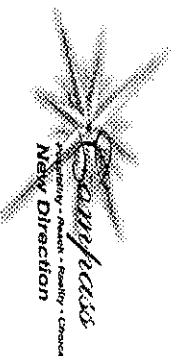
Andersen Consulting - Tim Young	Financial Analyst - TBD
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Executive Review Team

Cathy Abbott	Pat Mulchay	Jeff Yundt	Bob Skaggs
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3 weeks

Roles and Responsibilities



Team roles and responsibilities include

Team Leads

- Provide leadership and guidance
- Provide project management oversight
- Identify and resolve issues and risks
- Define and manage project approach and deliverables
- Identify and resolve issues and risks
- Act as conduit to executive management
- Review, approve and assure quality deliverables
- Support delivery of business case
- Secure additional resources as needed
- Identify and secure subject matter experts as needed

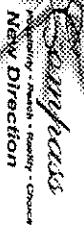
Core Team/Cross Team

- Manage day-to-day team activities
- Identify and resolve issues and risks
- Develop content and deliverables
- Identify and prioritize opportunities
- Gather and summarize information to validate or refute potential opportunities
- Deliver opportunity business cases
- Identify and secure additional resources as needed
- Assure delivery against project timeframe and milestones
- Assure quality of deliverables

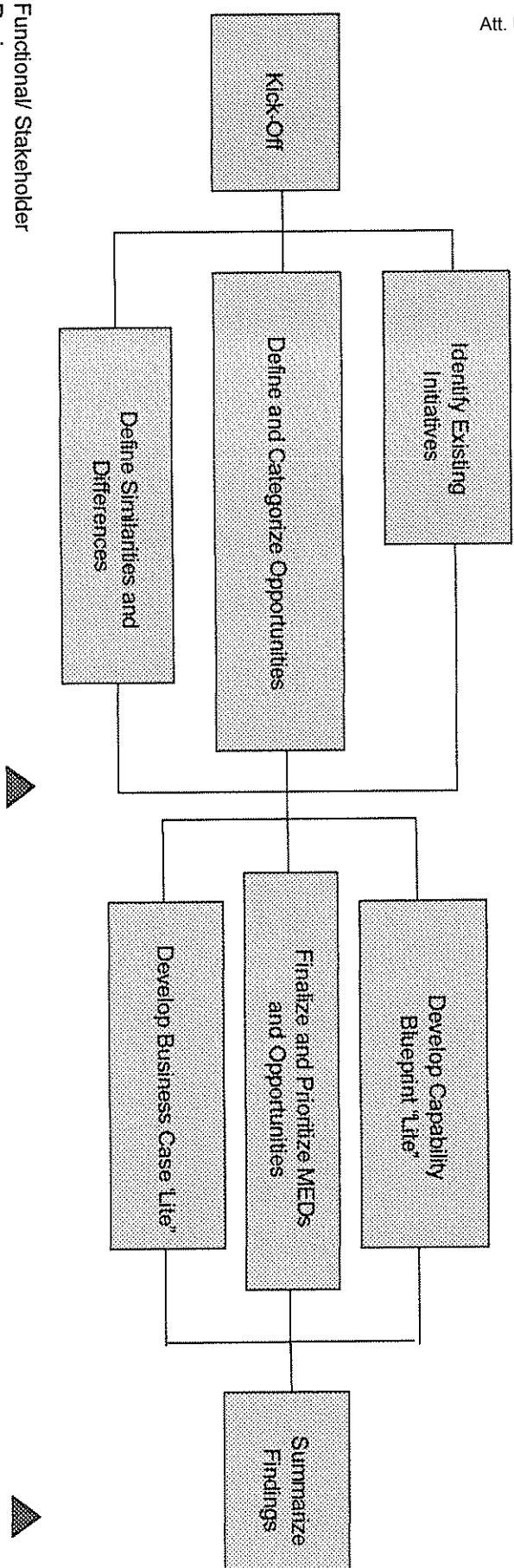
Executive Review Team

- Support resolution of critical issues/risks
- Review and approve final recommendations
- Confirm/provide strategic direction

Work Approach



Our approach will follow a clearly defined set of work activities and associated deliverables

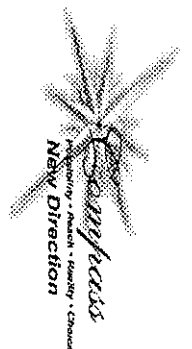


Functional/ Stakeholder Reviews

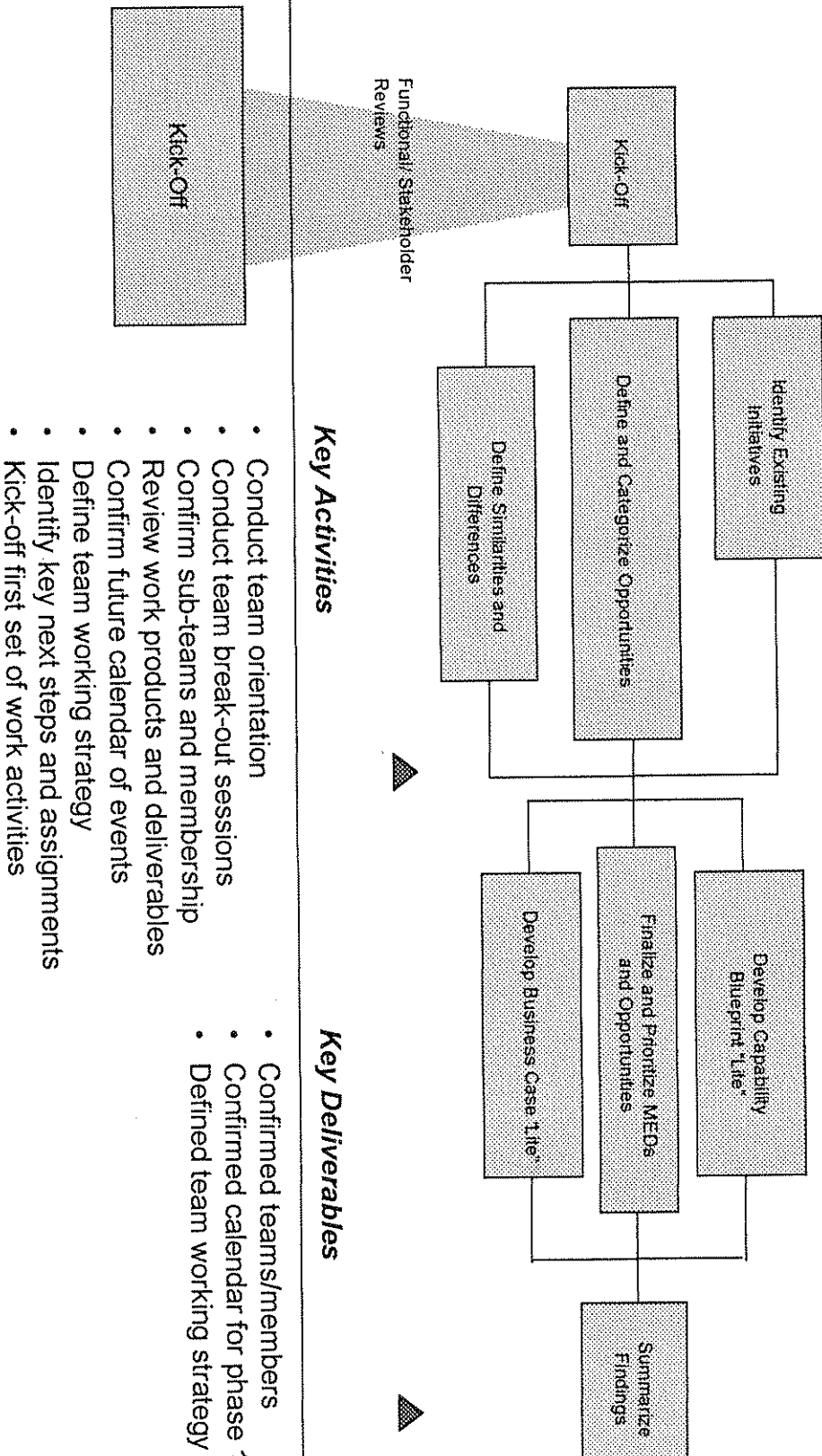
Key Deliverables

- Prioritized potential opportunities/ MED items
- "Lite" business case for each opportunity (Phase 2 2-3 mos →)
- "Lite" capability blueprint for key functional areas
- Final Report

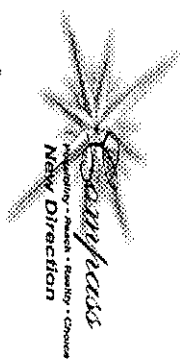
Work Approach



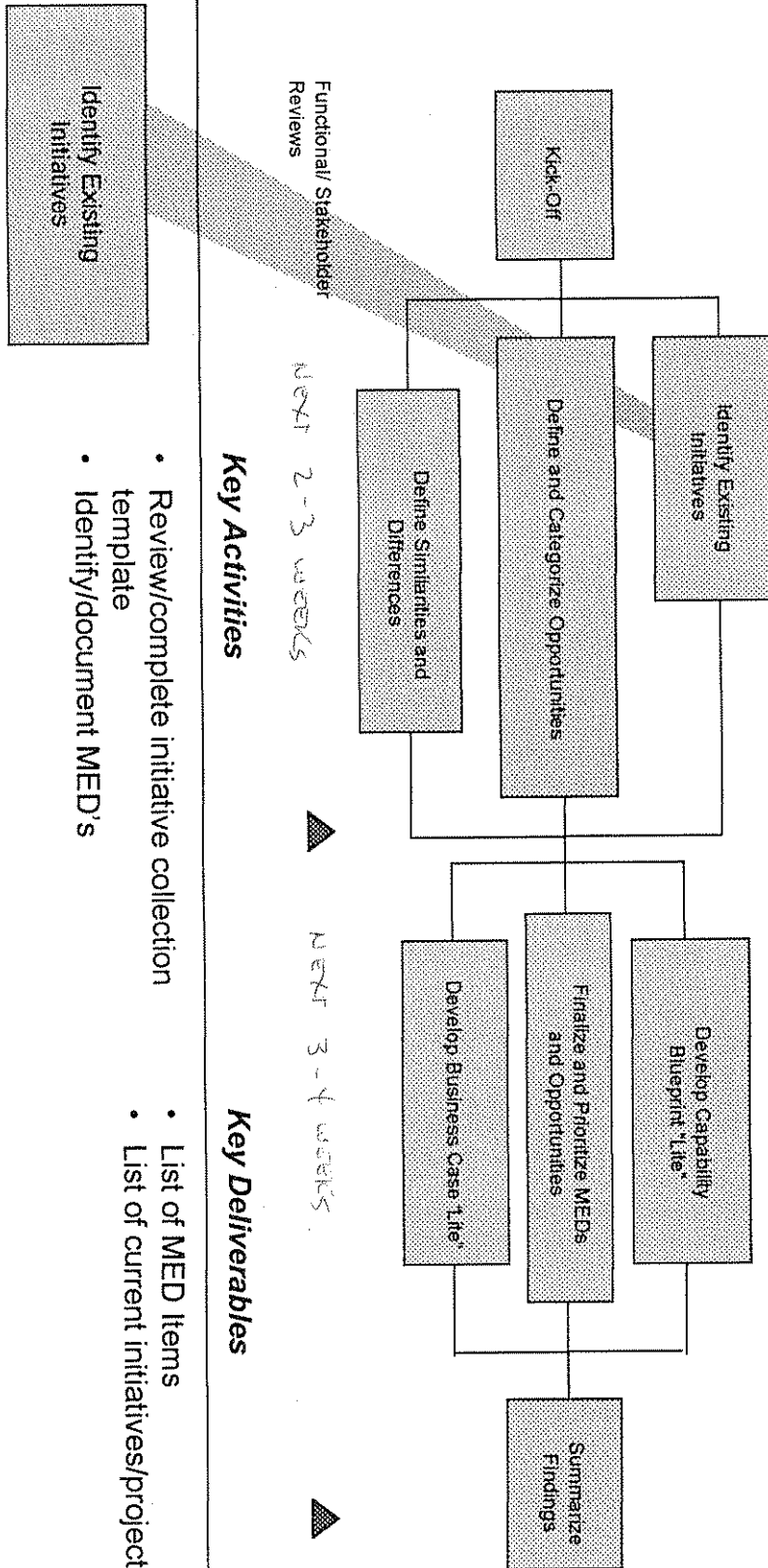
Our kick-off will define our scope, approach and review activities and deliverables for the upcoming weeks



Work Approach



We will document the current initiatives in order to understand where work may be reused, evaluate for continuity and use to help identify opportunities



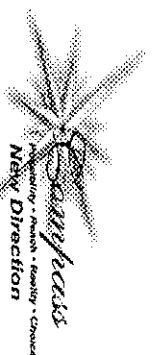
Key Activities

- Review/complete initiative collection template
- Identify/document MED's

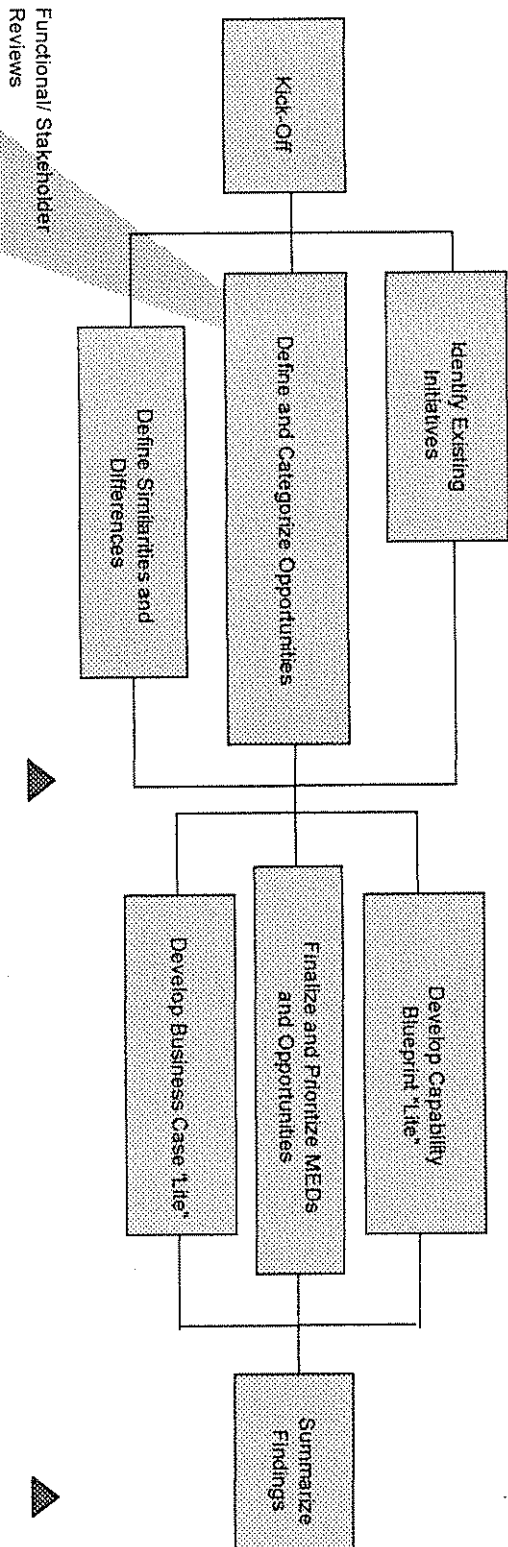
Key Deliverables

- List of MED items
- List of current initiatives/projects

Work Approach



We will spend time together and in individual sub-team groups to brainstorm and identify potential opportunity areas - focusing on areas where we can achieve high savings



Key Activities

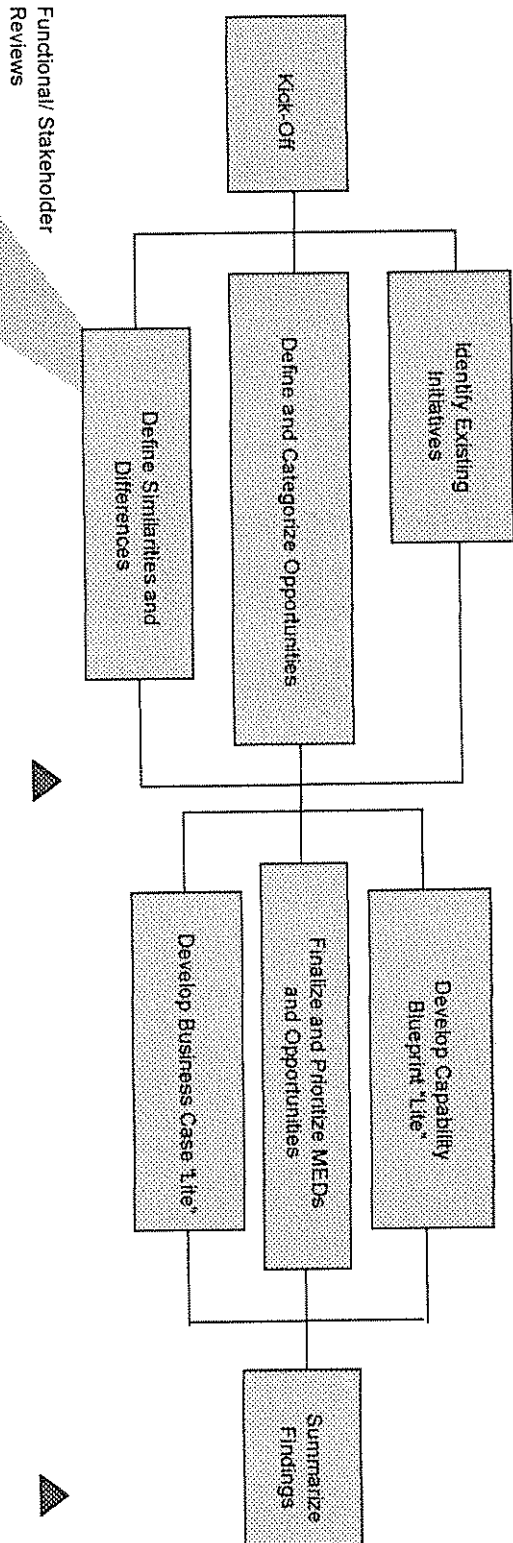
Key Deliverables

Define and Categorize Opportunities

- Brainstorm/ draft potential opportunity list
- Revise opportunity list based on completed similarities/differences worksheets
- Identify/ gather/ summarize information for opportunity investigation
- Validate opportunities/ hypothesis with collected data
- Revise opportunity list/MEDs as needed
- Review opportunity list/MEDs with stakeholders
- Categorized list of opportunities
- Data/information validating opportunities
- Updated MED list

Work Approach

This will be our high level "as is" comparison of the organizations - using this information to identify information sources to validate and begin to identify quantifiable benefits



Key Activities

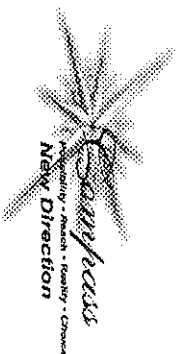
- Identify functions for which similarities/differences worksheets is needed
- Gather/ document company specific information
- Determine/ document similarities/ differences
- Revise opportunity/ MED list as needed

Key Deliverables

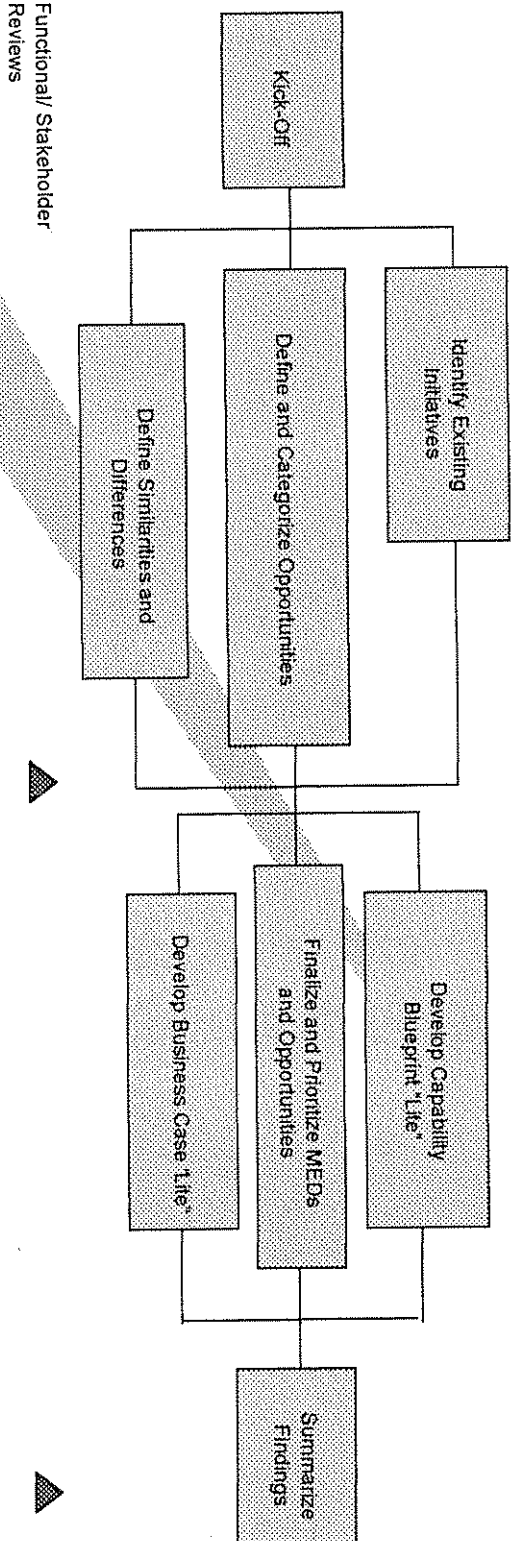
- Similarities/Differences worksheets
- Updated opportunity/ MED list

Define Similarities and Differences

Work Approach



The capability blueprint will allow us to create a high level "to be" model for our new operating environment



Key Activities

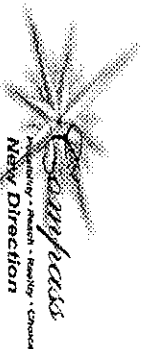
- Confirm functions for which capability blueprints are needed
- Identify conceptual requirements for each Capability Blueprint component
- Update Business Case "lite" as necessary

Key Deliverables

- Capability blueprints "lite"
- Updated business case "lite"

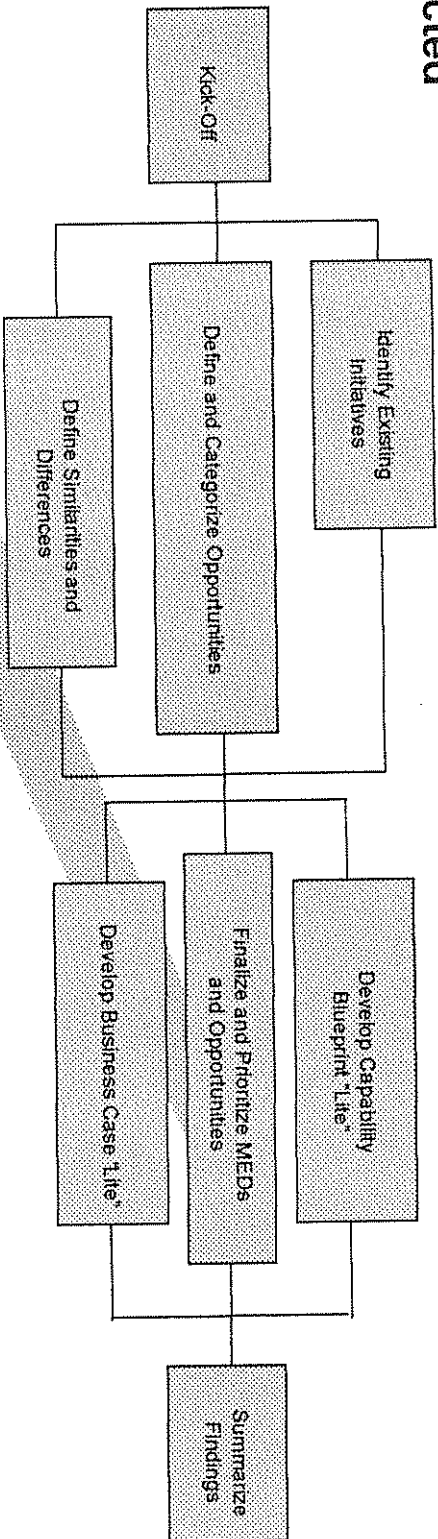
Develop Capability
Blueprint "lite"

Work Approach



We will update our opportunities and MED list using information from the Business Case and Capability Blueprint development, as well as additional information as it is collected

Functional/ Stakeholder Reviews



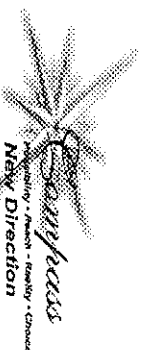
Key Activities

Key Deliverables

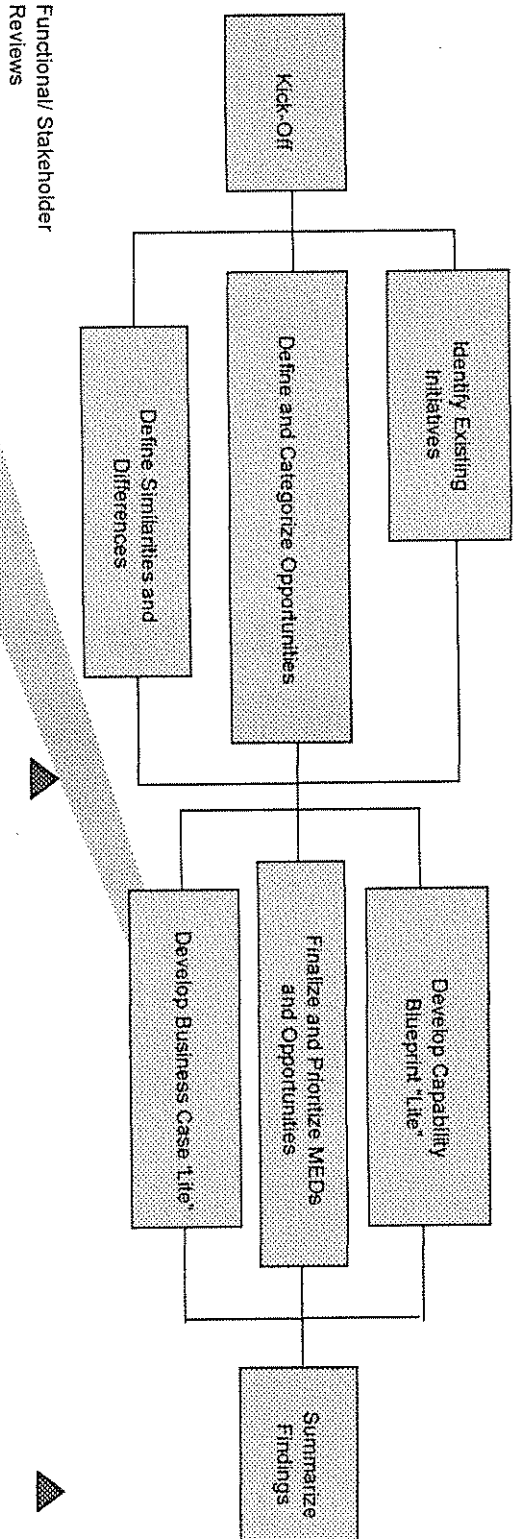
- Update opportunities based on Business Case and Capability Blueprint "Lites"
- Develop prioritized list of opportunities
- Updated Opportunity worksheets
- Updated MED Requirements worksheet

Finalize and Prioritize MEDs and Opportunities

Work Approach



At this point in time, the information we will have gathered will be used to create an initial estimate of the benefits and incremental costs of our high value opportunity areas



Key Activities

Key Deliverables

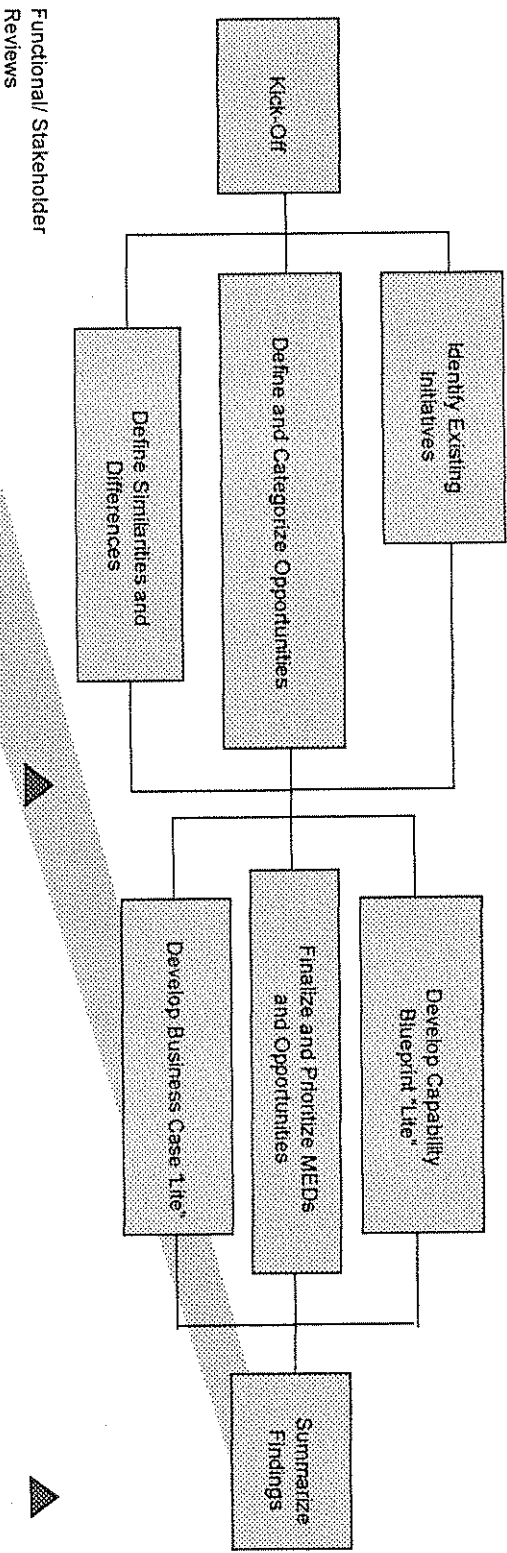
Develop Business Case "lite"

- Estimate tangible/intangible benefits and costs vs. baseline
 - ✓ Resources
 - ✓ Materials
 - ✓ Facilities
 - ✓ Capital vs. O&M
- Develop/ confirm opportunities
- Update Capability blueprints "lite" as necessary
- Business Case "lite" for each opportunity

Work Approach



Our final deliverable for this phase of work will include a summarization of our work efforts and planning for our next phase - Conceptual Design



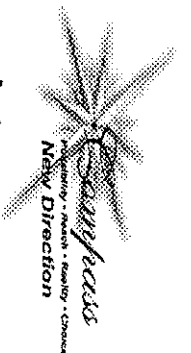
Key Activities

- Summarize opportunities
- Format information into consolidated report
- Construct plan to complete phase 2 - Conceptual Design tasks
- Review team structure based upon identified opportunities and phase 2 tasks
- Review phase 1 report with stakeholders

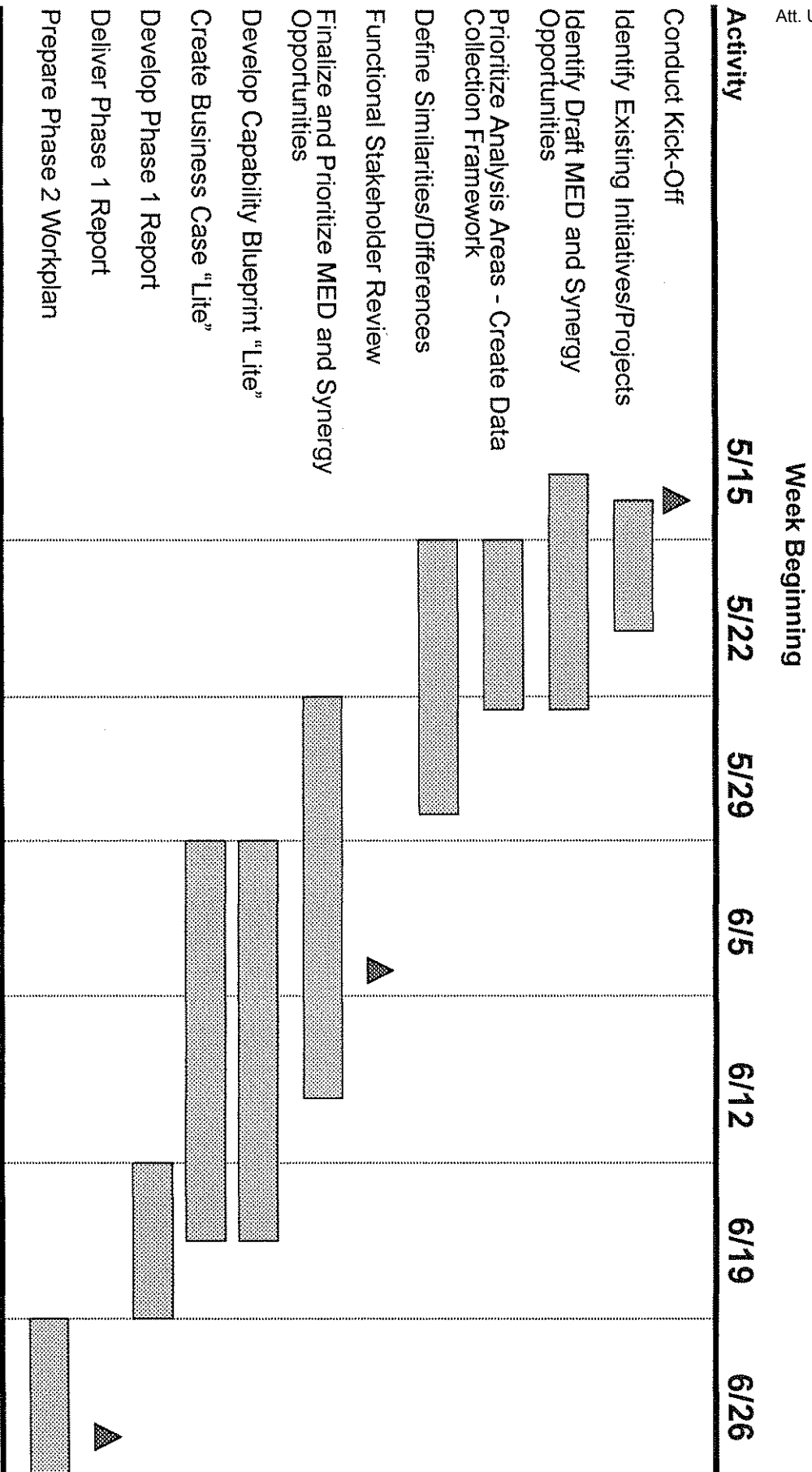
Key Deliverables

- Consolidated phase 1 report
 - ✓ Summarized findings
 - ✓ Prioritized list of opportunities with business case "lite"
 - ✓ Capability Blueprints
- Conceptual Design phase 2 project plan

Calendar



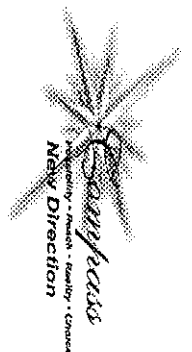
To achieve our aggressive goals, we will need to focus on key delivery points



Current Initiatives

Our first weeks deliverables will focus on the following:

- Current initiatives/projects list
 - ✓ Identify all current work that is in progress
 - ✓ Need to identify what projects from due diligence studies are underway - must firm up benefits and costs for baseline (are these correct?)
- Opportunities
 - ✓ Begin thinking about opportunities around function areas
 - ✓ Think of recent past efforts that could be shared across new organization
 - ✓ We will meet on Monday to discuss and begin brainstorm session
- Similarities/Differences (as-is)
 - ✓ Begin to document what each organization looks like based on opportunity
 - ✓ Flush out additional ideas and will help identify what information we need to start collecting



Next Steps Calendar



We are proposing the following next steps calendar

Week Beginning 5/22

Mon 5/22

Tue 5/23

Wed 5/24

Thurs 5/25

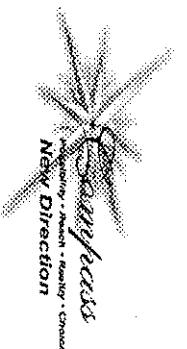
Fri 5/26

8	<p>Individual</p> <ul style="list-style-type: none"> Travel to project site Work on Existing Initiative Inventories 	<p>Group - Room A</p> <ul style="list-style-type: none"> Brainstorm potential opportunities/ MEDS Hand-out sample opportunities list 	<p>Sub-Teams Rooms B/C</p> <ul style="list-style-type: none"> Complete existing initiative inventory Complete draft of opportunities Begin identifying opportunity info sources 	<p>Group - Room A</p> <ul style="list-style-type: none"> Review Sim/Diff & info gathering process Determine req. Sim/Diff docs 	<p>Individual</p> <ul style="list-style-type: none"> Work at home office site Gather sim/diff & opportunity information
10					
12	<p>Group - 12:00 Room A</p> <ul style="list-style-type: none"> Begin - Lunch Review 2 week calendar Discuss/Introduce Deliverables Existing initiatives Opportunity identification process 	<p>Sub-Teams Rooms B/C</p> <ul style="list-style-type: none"> Review/update existing initiatives Review/update potential opportunities/ MEDS 	<p>Group - Room A</p> <ul style="list-style-type: none"> Review/discuss opportunities/ MEDS - Prioritize - Categorize 	<p>Sub-Teams Rooms B/C</p> <ul style="list-style-type: none"> Revise opportunity list Begin gathering sim/diff information 	
2					
4					



Program Management Meeting (8:30-10:00am)

Next Steps Calendar



We are proposing the following next steps calendar

Week Beginning 5/29

Mon

Tue 5/30

Wed 5/31

Thurs 6/1

Fri 6/2

SA
6/3

8

Memorial Day
Holiday

Individual

- Travel to project site
- Work on sim/diff & opportunity information

Sub-Teams
Rooms B/C

- Finalize Sim/Diff Worksheets
- Continue Info Gathering for Opportunities
- Document opportunities on template
- Identify issues and risks

Group - Room A

- Discuss next two week calendar
- Plan/discuss executive briefing

Sub-Teams
Rooms B/C

- Finalize Sim/Diff Worksheets
- Finalize Opportunity list

Individual

- Work at home office site
- Gather sim/diff & opportunity information

10

12

Group - Room A

- Lunch - group week planning/other

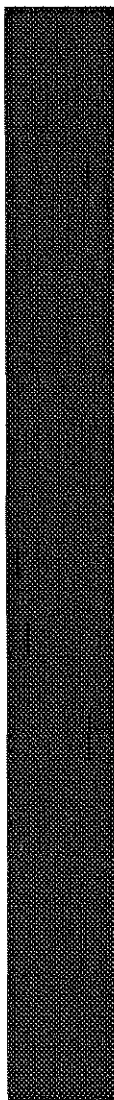
Sub-Teams
Rooms B/C

- Review info gathering
- Continue Sim/Diff Worksheets

2

4

Program Management Meeting (8:30-10:00am)



5/23/00

**Gas Operations Team
Sample Opportunities
As of May 19, 2000**



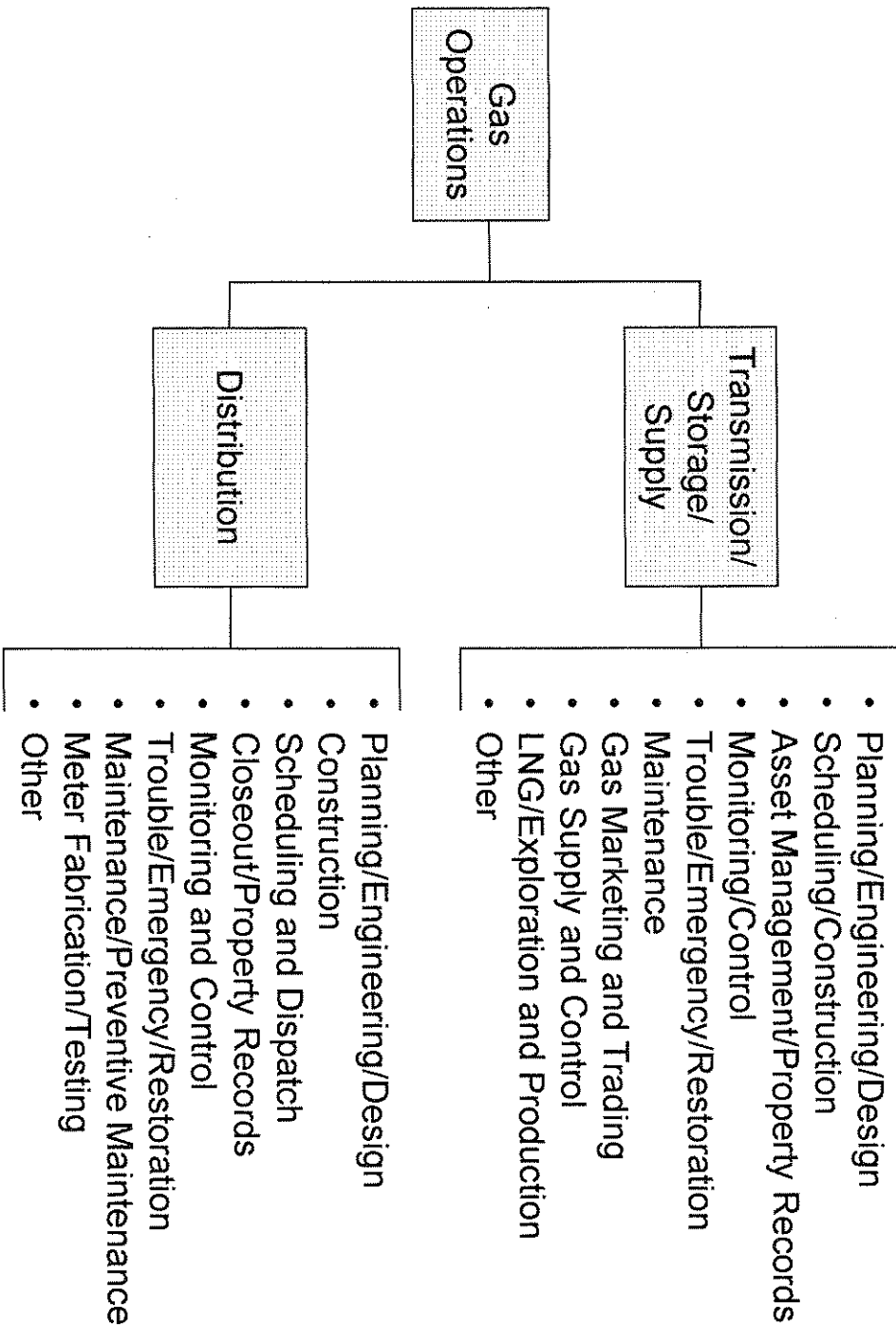
Confidential - Do Not Duplicate

Opportunity List

For Phase 1 - Opportunity Identification, the Gas Operations team will conduct analysis around the following areas

Sub-Teams

Key Areas of Analysis



Opportunity List

Key Areas of Analysis - Planning/Engineering/Design

Potential Opportunities

- Examine creating a single functional unit for management and control
- Consolidate physical sites
- Operate multiple physical sites as one logical site (e.g., maintain main functions centrally with hubs of small teams at select physical locations)
- Outsource engineering or other functions based on low cost of service
- Identify/select new tools to improve timing, performance and efficiencies for engineering/planning functions
- Standardize practices (e.g., standardize planning units - compatible units, engineering designs, etc.)
- Implement standard performance measures for all groups
- Standardize permit processing
- Examine site visit practices

Key Areas of Analysis - Scheduling/Dispatch/Construction

Potential Opportunities

- Examine capital project construction practices for improvement areas
- Consolidate resource management for construction activities (e.g., centralize supply and demand for resources)
- Review construction contracts with third party/outside suppliers for optimal contracting and pricing strategies
- Examine how information management tools are used and optimize activities (e.g. planning, management and scheduling)
- Review construction practices and process for improvement
- Identify areas to centralize substation construction activities
- Examine training practices (are training hours optimized and required)
- Examine current facilities and identify how to eliminate overlaps
- Analyze outsourcing practices for line and substation construction
- Examine overtime practices

Key Areas of Analysis - Scheduling/Dispatch/Construction

Potential Opportunities

- Consolidate dispatch centers
- Consolidate resource management for construction activities (e.g., centralize supply and demand for resources)
- Examine contractor practices to get economies of scale
- Examine seasonal practices for turn-on/off
- Review site visits/job practices for overlaps and/or multiple visits to same sites
- Combine short-cycle work with other work activities
- Examine use of seasonal/supplemental workforces (e.g., students, other supplemental)
- Examine opportunity to share resources - crews working in close proximity's/not optimized
- Examine crew make-up practices (e.g., one man vs. two man crews, what doing, etc.)

Key Areas of Analysis - Asset Management/Property Records

Potential Opportunities

- Implement reliability-centered maintenance
- Examine prioritization, funding processes for main and service replacement
- Implement reliability-centered maintenance (organization and practices)
- Automate close process with work management tools
- Use consistent standards and property units - compatible units
- Establish follow-up procedures to check actuals with estimates to tune upstream processes and control costs
- Standardize work practices across organization

Key Areas of Analysis - Monitoring/Control

Potential Opportunities

- Review consolidation opportunities
- Examine systems and infrastructure monitoring capabilities for overall effectiveness
- Standardize monitoring practices across organization
- Identify best practices in other parts of organization and repeat at other centers
- Examine opportunities where systems can be utilized to improve emergency/restoration practices

Key Areas of Analysis - Gas Marketing and Trading

Potential Opportunities

- Examine opportunities to combine marketing and trading organizations
- Review trading practices and salary/bonus practices
- Standardize use of tools to optimize trading and performance management
- Examine fees and identify opportunities to reduce

Key Areas of Analysis - Trouble/Emergency/Restoration

Potential Opportunities

- Review outage management practices and procedures
- Examine opportunity to share crews in times of heavy outages
- Identify opportunity to identify and isolate trouble through automated tools (e.g., use of voice response units to track outages and use for trace back)
- Identify value of using outage management/tracking systems capabilities to improve monitoring and performance
- Examine opportunities to use technology to increase overall effectiveness
- Review dispatch practices and crew management for "best use" opportunities
- Review crew practices for effective dispatch

Key Areas of Analysis - Maintenance/Preventive Maintenance

Potential Opportunities

- Optimize maintenance intervals
- Examine information readily available for analysis and tracking
- Examine standards and system-wide operating procedures
- Review job site reporting and vehicle downtime
- Use reliability-centered decision making practices to optimize decision making and expenditures
- Examine use of GIS/Asset Management systems for effectiveness
- Look for opportunities to leverage existing systems to improve performance and leverage other sites
- Examine use of Asset Management systems/decision making across companies

Key Areas of Analysis - Meter Fabrication/Testing

Potential Opportunities

- Consolidate meter shops and facilities
- Review meter installation and maintenance practices (substation vs. Customer, field testing, e tc.)
- Consider outsourcing options for meter installation and testing
- Identify best practice areas and implement throughout organization
- Consider outsourcing options where feasible
- Review meter maintenance practices and look for opportunities to improve overall performance (of units and personnel)

Key Areas of Analysis - Gas Supply and Control

Potential Opportunities

- Review gas infrastructure for consolidation - storage fields, gas transmission, etc.
- Examine number of storerooms
- Examine purchase contracts
- Review nominations process

Key Areas of Analysis - Other

Potential Opportunities

- Examine reduction in membership of industry associations (e.g., AGA, EPRI, etc.)
- Examine the amount of training hours per employee per year (is X hours right number?)
- Examine the number of company vehicles in use vs. Reimbursement of employees for personal automobile usage
- Examine divestiture of unprofitable districts or local areas - asset valuation
- Review overtime practices and examine other means to reduce expenditures
- Examine number of staff positions to revenue creations positions (overhead ratios)
- Examine opportunities to flatten organization